

of items; on the contrary, in most instances they want fewer items but of higher-quality, a product that will give them lasting value for the money they spend.

The key word today is value. Quality at a price. There is never an acceptable reason for a competitor to be ahead of K mart in any phase of the operation. If that happens, we simply are not doing our job, failing to use the tools provided.

When we first began talking about adjusting to today's consumer demands, there was a good deal of uncertainty and this I understand - many rightfully wondered what does it mean? Naturally, too, when the term "trading up" was applied - usually in a negative sense - many imagined us going "department store" and losing masses of loyal K mart customers.

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— B. M. Fauber

I'm pleased to report that you now have many excellent examples of the tremendous success we can achieve and, in so doing, hold the customer that has always bought most of their goods from K mart, while keeping the so called upscale customer longer, and selling them more.

We certainly lost no customers from any income level. Indeed in my opinion, we gained a lot with the new greeting card and gift wrap layout.

We now have several numbers of top quality bathroom fixtures that are higher priced and selling, yet we still provide the Ecko line which is in great demand. Each buyer's presentation this week will exhibit further evidence of the program which has been made towards providing our customers with a top quality product.

Please notice I haven't mentioned any of the multitude of examples in apparel lines. The list in all departments is truly endless and we have only started. Now we can explain, by example, in easy to understand terms, K mart's merchandising strategy for the 80's. And more importantly, we can move ahead more aggressively, be less afraid of the *new or different* approach, due to the success already enjoyed.

The *third* part of our program to make K mart more competitive in the retail industry involves the redeployment of assets. The process began when, after thorough study, we eliminated the yard goods department. Our analysis indicated that the customer was shopping elsewhere for these products and the space it occupied could be better utilized to offer an expanded assortment in hobbies and crafts, bed and bath.

We have significantly edited and revised the assortments in our major appliance department, particularly in small stores where it is very costly to warehouse merchandise that is delivered to the customer's home. It is important to understand that we are not going out of the appliance business. Instead, we are concentrating our resources in the most rapidly growing areas including home electronics, home computers, microwave ovens, portable televisions and video recording equipment.

In 1982, the *fourth* phase of our five-part program was presented. I think you have worked with it sufficiently now to feel much more comfortable than perhaps you did at the beginning. That phase was to lower operating expenses, *per dollar of sales*, and to accomplish this by:

1. New store organization structures,
2. The introduction and the proper utilization of computers and computer technology.
3. The development of an attitude that we can have well-merchandised, clean, bright, attractive stores and do it at a lower operating expense percent than in the past.

The *fifth* factor is *customer service*.

Dealing with the public can be a taxing and difficult job, or it can be challenging and fun depending on our own attitudes. We must recognize that while there are a very *few* consumers that cause us grief, we alienate thousands by not treating them with the respect, the courtesy and the extra effort they deserve when they shop our stores.

When a customer comes to our service desk, we must treat them graciously and courteously. When a customer needs some technical advice or assistance on the sales floor, we must provide professional assistance in answering their questions. And most importantly, when a customer enters our check-outs to pay for their purchases, we must do everything possible to efficiently and gratefully complete their shopping experience. Get them through quickly, *any* wait is too long. If we do this in combination with our reputation for low competitive prices and excellent merchandise assortments and quality, we will be providing the American consumer with the best possible values that they can achieve anywhere.